

SKECHERS USA INC  
Form 10-K/A  
July 31, 2013  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
WASHINGTON, D.C. 20549

**FORM 10-K/A**  
AMENDMENT NO. 1

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2012

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 001-14429

**SKECHERS U.S.A., INC.**

(Exact Name of Registrant as Specified in Its Charter)

**Delaware**  
 (State or Other Jurisdiction of  
 Incorporation or Organization)

**95-4376145**  
 (I.R.S. Employer  
 Identification No.)

**228 Manhattan Beach Blvd., Manhattan Beach, California**  
 (Address of Principal Executive Offices)

**90266**  
 (Zip Code)

**Registrant's telephone number, including area code: (310) 318-3100**

**Securities registered pursuant to Section 12(b) of the Act:**

Title of Each Class	Name of Each Exchange on Which Registered
Class A Common Stock, \$0.001 par value	New York Stock Exchange

**Securities registered pursuant to Section 12(g) of the Act:**

None

(Title of Class)

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer   
 Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

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As of June 30, 2012, the aggregate market value of the voting and non-voting Class A and Class B Common Stock held by non-affiliates of the Registrant was approximately \$777.0 million based upon the closing price of \$20.37 of the Class A Common Stock on the New York Stock Exchange on such date.

The number of shares of Class A Common Stock outstanding as of February 15, 2013: 39,320,598.

The number of shares of Class B Common Stock outstanding as of February 15, 2013: 11,274,090.

### **DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Registrant's Definitive Proxy Statement issued in connection with the 2013 Annual Meeting of the Stockholders of the Registrant are incorporated by reference into Part III.

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**SKECHERS U.S.A., INC. AND SUBSIDIARIES**

**EXPLANATORY NOTE TO ANNUAL REPORT ON FORM 10-K/A**

**AMENDMENT NO. 1 FOR THE YEAR ENDED DECEMBER 31, 2012**

This Amendment No. 1 to the Annual Report on Form 10-K (the "Amendment") of Skechers U.S.A., Inc. (the "Company") for the fiscal year ended December 31, 2012, originally filed with the Securities and Exchange Commission (the "SEC") on March 1, 2013 (the "Form 10-K"), is being filed to amend Item 3 of Part I, Items 8 and 9A of Part II, Item 14 of Part III and Item 15 of Part IV of the Form 10-K following the re-audit of the Company's consolidated financial statements and related financial statement schedule for the fiscal years ended December 31, 2012 and 2011, and the attestation of the effectiveness of the Company's internal control over financial reporting as of December 31, 2012 under Section 404 of the Sarbanes-Oxley Act of 2002, as amended (collectively, the "Re-audit"), by our current independent registered public accounting firm, BDO USA, LLP ("BDO"). The Company appointed BDO as its new independent registered public accounting firm on April 24, 2013, following the resignation on April 8, 2013 of the Company's predecessor independent registered public accounting firm, KPMG LLP ("KPMG"). The resignation of KPMG was due solely to the impairment of its independence resulting from its former partner's alleged unlawful activities. The resignation of KPMG was not related to the Company's financial statements, its accounting practices, the integrity of the Company's management, or for any other reason. The Re-audit by BDO did not result in any adjustments or changes to the Company's consolidated financial statements or related notes except for an update related to litigation in notes 11(b) and 14, or the related financial statement schedule, for the fiscal years ended December 31, 2012 and 2011.

Item 3 of Part I of the Form 10-K has been amended to update all previously disclosed legal proceedings and disclose one new legal proceeding as of July 31, 2013. The only amendments to Item 8 of Part II of the Form 10-K are the inclusion of BDO's audit reports relating to the consolidated financial statements as of and for the fiscal years ended December 31, 2012 and 2011 and related financial statement schedule, and the effectiveness of internal control over financial reporting of the Company as of December 31, 2012, which replace the corresponding reports of KPMG in the Form 10-K that were withdrawn upon their resignation subsequent to the filing of the Form 10-K, and an update related to litigation in notes 11(b) and 14 to the consolidated financial statements. The only amendment to Item 9A of Part II of the Form 10-K is disclosure under Management's Report On Internal Control Over Financial Reporting that BDO, and not KPMG, audited the consolidated financial statements included in the Amendment and issued an attestation report on the effectiveness of the Company's internal control over financial reporting as of December 31, 2012, which is included in the Amendment. Item 14 of Part III of the Form 10-K has been amended to include disclosure regarding BDO's fees billed for the Re-Audit. Item 15 of Part IV of the Form 10-K has been amended to include new certifications as reflected in Exhibits 31.1, 31.2 and 32.1, a new consent from the Company's current independent registered public accounting firm, BDO, as reflected in Exhibit 23.1, and a new consent from the Company's predecessor independent registered public accounting firm, KPMG LLP, as reflected in Exhibit 23.2. No other changes have been made to the Form 10-K as originally filed.

Item 3 of Part I, Items 8 and 9A of Part II, Item 14 of Part III and Item 15 of Part IV of the Form 10-K are the only portions of the Form 10-K being supplemented or amended by this Amendment. Except as specifically set forth herein, this Amendment does not reflect any event occurring after the original file date of the Form 10-K. This Amendment does not update any exhibits as originally filed other than Exhibits 23.1, 31.1, 31.2 and 32.1. Accordingly, this Amendment should be read in conjunction with the Form 10-K and the Company's filings with the SEC subsequent to the filing of the Form 10-K.

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**SKECHERS U.S.A., INC. AND SUBSIDIARIES**

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This annual report includes our trademarks, including Skechers®, the S in Shield Design, the Performance-S Shifted Design, Shape-ups®, Twinkle Toes®, Bella Ballerina®, Skechers GOrun®, Skechers GOwalk®, Resalyt®, Resagrip®, Resamax®, each of which is our property. This report contains additional trademarks of other companies. We do not intend our use or display of other companies' trade names or trademarks to imply an endorsement or sponsorship of us by such companies, or any relationship with any of these companies.

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**ITEM 3. LEGAL PROCEEDINGS**

Our claims and advertising for our toning products including for our Shape-ups are subject to the requirements of, and routinely come under review by regulators including the U.S. Federal Trade Commission ( FTC ), states Attorneys General and government and quasi-government regulators in foreign countries. We are currently responding to requests for information regarding our claims and advertising from regulatory and quasi-regulatory agencies in several countries and are fully cooperating with those requests. While we believe that our claims and advertising with respect to our core toning products are supported by scientific tests, expert opinions and other relevant data, and while we have been successful in defending our claims and advertising in several different countries, we have discontinued using certain test results and we periodically review and update our claims and advertising. The regulatory inquiries may conclude in a variety of outcomes, including the closing of the inquiry with no further regulatory action, settlement of any issues through changes in its claims and advertising, settlement of any issues through payment to the regulatory entity, or litigation.

As we disclosed in previous periodic SEC filings, the FTC and Attorneys General for 44 states and the District of Columbia ( SAGs ) had been reviewing the claims and advertising for Shape-ups and our other toning shoe products. We also disclosed that we had been named as a defendant in multiple consumer class actions challenging our claims and advertising for our toning shoe products, including Shape-ups, actions which are described below. As we disclosed in our annual report on Form 10-K for the year ended December 31, 2011 and in our subsequent quarterly reports on Form 10-Q, we recorded a charge of \$50 million during the fourth quarter ended December 31, 2011 to reserve for costs and potential other exposures relating to the existing litigation and regulatory matters.

On May 16, 2012, we announced that we had settled all domestic legal proceedings relating to advertising claims made in connection with the marketing of our toning shoe products. Under the terms of the global settlement without admitting any fault or liability, with no findings being made that our company had violated any law, and with no fines or penalties being imposed we have made payments in the aggregate amount of \$50 million to settle and finally resolve the domestic advertising class action lawsuits and related claims brought by the FTC and the SAGs. The FTC Stipulated Final Judgment was approved by the United States District Court for the Northern District of Ohio on July 12, 2012. Consent judgments in the 45 SAG actions have been approved and entered by courts in those jurisdictions. On May 13, 2013, the United States District Court for the Western District of Kentucky entered an order finally approving the nationwide consumer class action settlement.

On November 8, 2012, we were served with a Grand Jury Subpoena ( Subpoena ) for documents and information relating to our past advertising claims for our toning footwear, including Shape-ups and Resistance Runners. The Subpoena was issued by a Grand Jury of the United States District Court for the Northern District of Ohio, in Cleveland, Ohio. The Subpoena seeks documents and information related to outside studies conducted on the Company s toning footwear. This Subpoena appears to grow out of the FTC s inquiry into our claims and advertising for Shape-ups and our other toning shoe products, which we settled with the FTC, State Attorneys General and consumer class as part of a global settlement, as set forth above. We are fully cooperating and are in the process of producing documents and other information requested in the Subpoena. The Assistant United States Attorney has informed the Company that neither the Company nor its employees are targets at the present time. Although we do not believe this matter will have a material adverse impact on our results of operations or financial position, it is too early to predict the timing and outcome of this matter or reasonably estimate a range of potential losses, if any.

The toning footwear category, including our Shape-ups products, has also been the subject of some media attention arising from a number of consumer complaints and lawsuits alleging injury while wearing Shape-ups. We believe our products are safe and are defending ourselves from these media stories and injury lawsuits. It is too early to predict the outcome of any case or inquiry, whether there will be future personal injury cases filed, whether adverse results in any single case or in the aggregate would have a material adverse impact on our results of operations or financial position, and whether insurance coverage will be adequate to cover any losses.

*Tamara Grabowski v. Skechers U.S.A., Inc.* On June 18, 2010, Tamara Grabowski filed an action against our company in the United States District Court for the Southern District of California, Case No. 10 CV 1300 JM (MDD), on her behalf and on behalf of all others similarly situated. The complaint, as subsequently amended, alleges that our advertising for Shape-ups violates California s Unfair Competition Law and the California Consumers Legal Remedies Act, and constitutes a breach of express warranty (the *Grabowski* action ). The complaint seeks certification of a nationwide class, damages, restitution and disgorgement of profits, declaratory and injunctive relief, corrective advertising, and attorneys fees and costs. On March 7, 2011, the Court stayed the action on the ground that the outcomes in pending appeals in two unrelated actions will significantly affect

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whether a class should be certified. On April 16, 2012, this action was transferred to the multidistrict litigation proceeding pending in the United States District Court for the Western District of Kentucky, entitled *In re Skechers Toning Shoe Products Liability Litigation*, MDL No. 2308. On May 15, 2012, as part of the global settlement discussed above that also resolved inquiries by the FTC and the SAGs, the parties entered into a Settlement Agreement in this action and the *Morga v. Skechers U.S.A., Inc.* action discussed below. On May 13, 2013, the Court entered an order finally approving the nationwide consumer class action settlement, and the time for any appeals therefrom has expired.

*Sonia Stalker v. Skechers U.S.A., Inc.* On July 2, 2010, Sonia Stalker filed an action against our company in the Superior Court of the State of California for the County of Los Angeles, on her behalf and on behalf of all others similarly situated, alleging that our advertising for Shape-ups violates California's Unfair Competition Law and the California Consumer Legal Remedies Act. The complaint seeks certification of a nationwide class, actual and punitive damages, restitution, declaratory and injunctive relief, corrective advertising, and attorneys' fees and costs. On July 23, 2010, we removed the case to the United States District Court for the Central District of California, and it is now pending as *Sonia Stalker v. Skechers USA, Inc.*, CV 10-5460 JAK (JEM). On January 21, 2011, the District Court stayed this case pending resolution of the *Grabowski* action discussed above. On May 16, 2012, this action was ordered transferred to the multidistrict litigation proceeding pending in the United States District Court for the Western District of Kentucky, entitled *In re Skechers Toning Shoe Products Liability Litigation*, MDL No. 2308. On August 13, 2012, the Court granted preliminary approval of the consumer class action settlement agreement in the *Grabowski/Morga* actions, and issued a preliminary injunction further enjoining prosecution of this action. On May 13, 2013, the Court entered an order finally approving the nationwide consumer class action settlement. The settlement in the *Grabowski/Morga* class actions (described above and below) is expected entirely to resolve the class claims brought by the plaintiff in *Stalker*.

*Venus Morga v. Skechers U.S.A., Inc.* On August 25, 2010, Venus Morga filed an action against our company in the United States District Court for the Southern District of California, Case No. 10 CV 1780 JM (MDD), on her behalf and on behalf of all others similarly situated. The complaint, as subsequently amended, alleges that our advertising for Shape-ups violates California's Unfair Competition Law and the California Consumer Legal Remedies Act, and constitutes a breach of express warranty. The complaint seeks certification of a nationwide class, damages, restitution and disgorgement of profits, declaratory and injunctive relief, corrective advertising, and attorneys' fees and costs. On March 7, 2011, the Court stayed the action on the ground that the outcomes in pending appeals in two unrelated actions will significantly affect whether a class should be certified. On April 16, 2012, this action was transferred to the multidistrict litigation proceeding pending in the Western District of Kentucky, entitled *In re Skechers Toning Shoe Products Liability Litigation*, MDL No. 2308. On May 15, 2012, as part of the global settlement discussed above that also resolved inquiries by the FTC and the SAGs, the parties entered into a Settlement Agreement in this action and the *Grabowski v. Skechers U.S.A., Inc.* action discussed above. On May 13, 2013, the Court entered an order finally approving the nationwide consumer class action settlement, and the time for any appeals therefrom has expired.

*Patty Tomlinson v. Skechers U.S.A., Inc.* On January 13, 2011, Patty Tomlinson filed a lawsuit against our company in Circuit Court in Washington County, Arkansas, Case No. CV11-121-7. The complaint alleges, on her behalf and on behalf of all others similarly situated, that our advertising for Shape-ups violates Arkansas' Deceptive Trade Practices Act, constitutes a breach of certain express and implied warranties, and is resulting in unjust enrichment (the *Tomlinson* action). The complaint seeks certification of a statewide class, compensatory damages, prejudgment interest, and attorneys' fees and costs. On February 18, 2011, we removed the case to the United States District Court for the Western District of Arkansas, where it was pending as *Patty Tomlinson v. Skechers U.S.A., Inc.*, CV 11-05042 JLH. On March 21, 2011, Ms. Tomlinson moved to remand the action back to Arkansas state court, which motion we opposed. On May 25, 2011, the Court ordered the case remanded to Arkansas state court and denied our motion to dismiss or transfer as moot, but stayed the remand pending completion of appellate review. On September 11, 2012, the District Court lifted its stay and remanded this case to the Circuit Court of Washington County, Arkansas. On October 11, 2012, by stipulation of the parties, the state Circuit Court issued an order staying the case. On August 13, 2012, the United States District Court for the Western District of Kentucky granted preliminary approval of the consumer class action settlement agreement in the *Grabowski/Morga* actions (discussed above), and issued a preliminary injunction enjoining the continued prosecution of this action. On May 13, 2013, the Court entered an order finally approving the nationwide consumer class action settlement. The settlement in the *Grabowski/Morga* class actions is expected entirely to resolve the class claims brought by the plaintiff in *Tomlinson*.

*Terena Lovston v. Skechers U.S.A., Inc.* On May 13, 2011, Terena Lovston filed a lawsuit against our company in Circuit Court in Lonoke County, Arkansas, Case No. CV-11-321. The complaint alleges, on her behalf and on behalf of all others similarly situated, that our advertising for our toning footwear products violates Arkansas' Deceptive Trade Practices Act, and is resulting in unjust enrichment. The complaint seeks certification of a statewide class and compensatory damages. On June 3,

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2011, we removed the case to the United States District Court for the Eastern District of Arkansas, where it was pending as *Terena Lovston v. Skechers U.S.A., Inc.*, 4:11-cv-0460. On August 5, 2011, the District Court issued an order staying the case pending completion of the appellate process in the *Tomlinson* action described above. On July 12, 2012, the district court ordered the *Lovston* case remanded to Arkansas state court, and on or about July 26, 2012, the plaintiff filed a renewed motion in the State Circuit Court for certification of a class of Arkansas residents who purchased our toning footwear products. On August 10, 2012, the Circuit Court issued an order staying the *Lovston* case in light of the class action settlement in the *Grabowski/Morga* actions (discussed above). On November 8, 2012, as allowed under the Circuit Court's stay order, the plaintiff gave notice that she intended to lift the stay and to proceed with the action by an amended complaint. On November 27, 2012, an amended complaint was filed in which Ms. Lovston abandoned her class action allegations, asserted a new personal injury claim, and added eight new plaintiffs with personal injury claims. On December 20, 2012, the Company filed a motion to dismiss the new plaintiffs' claims for improper venue, to strike the amended complaint, or to sever and transfer the new plaintiffs' claims to their home counties in Arkansas. On February 11, 2013, the state Circuit Court took that motion and several discovery motions under submission and ordered the parties to mediation. On or about May 17, 2013, the parties reached a settlement in principle that is expected to finally resolve this matter.

*Wendie Hochberg and Brenda Baum v. Skechers U.S.A., Inc.* On November 23, 2011, Wendie Hochberg and Brenda Baum filed a lawsuit against our company in the United States District Court for the Eastern District of New York, Case No. CV11-5751. The complaint alleges, on their behalf and on behalf of all others similarly situated, that our advertising for Shape-ups violates the New York Consumer Protection Act, and is resulting in unjust enrichment. The complaint seeks certification of a statewide class, damages, restitution, disgorgement, injunctive relief, and attorneys' fees and costs. On May 16, 2012, this action was ordered transferred to the multidistrict litigation proceeding pending in the United States District Court for the Western District of Kentucky, entitled *In re Skechers Toning Shoe Products Liability Litigation*, MDL No. 2308. On August 13, 2012, the United States District Court for the Western District of Kentucky granted preliminary approval of the consumer class action settlement agreement in the *Grabowski/Morga* actions (discussed above), and issued a preliminary injunction enjoining the continued prosecution of this action. On May 13, 2013, the Court entered an order finally approving the nationwide consumer class action settlement. The settlement in the *Grabowski/Morga* class actions is expected entirely to resolve the class claims brought by the plaintiff in *Hochberg*.

*Shannon Loss, Kayla Hedges and Donald Horner v. Skechers U.S.A., Inc., Skechers U.S.A., Inc. II and Skechers Fitness Group* On February 12, 2012, Shannon Loss, Kayla Hedges and Donald Horner filed a lawsuit against our company in the United States District Court for the Western District of Kentucky, Case No. 3:12-cv-78-H. The complaint alleges, on behalf of the named plaintiffs and all others similarly situated, that our advertising for Shape-ups is false and misleading, thereby constituting a breach of contract, breach of implied and express warranties, and resulting in unjust enrichment. The complaint seeks certification of a nationwide class, compensatory damages, and attorneys' fees and costs. On March 9, 2012, the named plaintiffs filed a motion to consolidate this action with *In re Skechers Toning Shoe Products Liability Litigation*, case no. 11-md-02308-TBR. On August 13, 2012, the United States District Court for the Western District of Kentucky granted preliminary approval of the consumer class action settlement agreement in the *Grabowski/Morga* actions (discussed above), and issued a preliminary injunction enjoining the continued prosecution of this action. On May 13, 2013, the Court entered an order finally approving the nationwide consumer class action settlement. The settlement in the *Grabowski/Morga* class actions is expected entirely to resolve the class claims brought by the plaintiff in *Loss*.

*Elma Boatright and Sharon White v. Skechers U.S.A., Inc., Skechers U.S.A., Inc. II and Skechers Fitness Group* On February 15, 2012, Elma Boatright and Sharon White filed a lawsuit against our company in the United States District Court for the Western District of Kentucky, Case No. 3:12-cv-87-S. The complaint alleges, on behalf of the named plaintiffs and all others similarly situated, that our advertising for Shape-ups is false and misleading, thereby constituting a breach of contract, breach of implied and express warranties, fraud, and resulting in unjust enrichment. The complaint seeks certification of a nationwide class, compensatory damages, and attorneys' fees and costs. On March 6, 2012, the named plaintiffs filed a motion to consolidate this action with *In re Skechers Toning Shoe Products Liability Litigation*, case no. 11-md-02308-TBR. On August 13, 2012, the United States District Court for the Western District of Kentucky granted preliminary approval of the consumer class action settlement agreement in the *Grabowski/Morga* actions (discussed above), and issued a preliminary injunction enjoining the continued prosecution of this action. On May 13, 2013, the Court entered an order finally approving the nationwide consumer class action settlement. The settlement in the *Grabowski/Morga* class actions is expected entirely to resolve the class claims brought by the plaintiff in *Boatright*.

*Jason Angell v. Skechers U.S.A., Inc., Skechers U.S.A., Inc. II and Skechers U.S.A. Canada, Inc.* On April 12, 2012, Jason Angell filed a motion to authorize the bringing of a class action in the Superior Court of Québec, District of Montréal. Petitioner



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Angell seeks to bring a class action on behalf of all residents of Canada (or in the alternative, all residents of Québec) who purchased Skechers Shape-ups footwear. Petitioner's motion alleges that we have marketed Shape-ups through the use of false and misleading advertisements and representations about the products' ability to provide health benefits to users. The motion requests the Court's authorization to institute a class action seeking damages (including damages for bodily injury), punitive damages, and injunctive relief. Petitioner's motion was formally presented to the Court on June 29, 2012. At a mediation held on February 28, 2013, the parties reached an agreement in principle to settle the *Angell* action (as well as the *Niras* and *Dedato* actions discussed below) through authorization by the Québec Superior Court of a nationwide settlement class. The parties are currently negotiating the terms of the settlement agreement. If the motion for approval of the class action settlement is denied or approval is reversed on appeal, we cannot predict the outcome of the *Angell* action or a reasonable range of potential losses or whether the outcome of the *Angell* action would have a material adverse impact on our results of operations or financial position in excess of the settlement.

*Brenda Davies v. Skechers U.S.A., Inc., Skechers U.S.A., Inc. II, and Skechers U.S.A. Canada Inc.* On September 5, 2012, Brenda Davies filed a Statement of Claim in the Court of Queen's Bench in Edmonton, Alberta, on behalf of all residents of Canada who purchased Skechers Shape-ups footwear. The Statement of Claim alleges that Skechers marketed Shape-ups through the use of false and misleading advertisements and representations about the products' ability to provide fitness benefits to users. The Statement of Claim seeks damages (including damages for bodily injury), restitution, punitive damages, and injunctive relief. Skechers has not yet responded to the Statement of Claim. The settlement in the *Angell*, *Niras*, and *Dedato* class actions (described above and below), if finally approved by the Court and affirmed on appeal in the event an appeal is taken, is expected entirely to resolve the class claims brought by the plaintiff in *Davies*. If the motion for approval of the class action settlement is denied or approval is reversed on appeal, we cannot predict the outcome of the *Davies* action or a reasonable range of potential losses or whether the outcome of the *Davies* action would have a material adverse impact on our results of operations or financial position in excess of the settlement.

*George Niras v. Skechers U.S.A., Inc., Skechers U.S.A., Inc. II, and Skechers U.S.A. Canada Inc.* On September 21, 2012, George Niras filed a Statement of Claim in the Ontario Superior Court of Justice on behalf of all residents of Canada who purchased Shape-ups, Resistance Runner, Shape-ups Toners/Trainers, or Tone-ups. The Statement of Claim alleges that Skechers marketed these toning shoes through the use of false and misleading advertisements and representations about the products' ability to provide health benefits to users. The Statement seeks damages, restitution, punitive damages, and injunctive relief. Skechers has not yet responded to the Statement. At a mediation held on February 28, 2013, the parties reached an agreement in principle to settle the *Niras* action (as well as the *Angell* action discussed above and the *Dedato* action discussed below) through authorization by the Québec Superior Court of a nationwide settlement class. The parties are currently negotiating the terms of the settlement agreement. It is anticipated that the agreement will provide for the voluntary discontinuance (dismissal) of the *Niras* action upon approval of the settlement by the Québec Superior Court. If the motion for approval of the class action settlement is denied or approval is reversed on appeal, we cannot predict the outcome of the *Niras* action or a reasonable range of potential losses or whether the outcome of the *Niras* action would have a material adverse impact on our results of operations or financial position in excess of the settlement.

*Frank Dedato v. Skechers U.S.A., Inc. and Skechers U.S.A. Canada, Inc.* On or about November 5, 2012, Frank Dedato filed a Statement of Claim in Ontario Superior Court of Justice on behalf of all residents of Canada who purchased Shape-ups, Tone-ups or Resistance Runner footwear. The Statement of Claim alleges that Skechers has allegedly made misleading statements about its footwear products' ability to provide fitness benefits to users. The Statement of Claim seeks damages, restitution, punitive damages, and injunctive relief. Skechers has not yet responded to the Statement of Claim. At a mediation held on February 28, 2013, the parties reached an agreement in principle to settle the *Dedato* action (as well as the *Angell* and *Niras* actions discussed above) through authorization by the Québec Superior Court of a nationwide settlement class. The parties are currently negotiating the terms of the settlement agreement. It is anticipated that the agreement will provide for the voluntary discontinuance (dismissal) of the *Dedato* action upon approval of the settlement by the Québec Superior Court. If the motion for approval of the class action settlement is denied or approval is reversed on appeal, we cannot predict the outcome of the *Dedato* action or a reasonable range of potential losses or whether the outcome of the *Dedato* action would have a material adverse impact on our results of operations or financial position in excess of the settlement.

*Michele Scovil v. Skechers U.S.A., Inc.* On April 25, 2012, Michele Scovil filed a lawsuit against our company in the District Court for Clark County, Nevada, Case No. A-12660756-C. Plaintiff alleges that she suffered physical injuries that she attributes to the allegedly defective design of Shape-ups, and plaintiff asserts, in her individual capacity, claims for negligence, products liability, strict liability, and breach of warranty. In addition, plaintiff also purports to bring a class action on behalf of all persons in Nevada who purchased Shape-ups shoes at retail, and seeks class certification on her claims for alleged violations of

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the Nevada Unfair and Deceptive Trade Practices Act. Plaintiff's complaint seeks damages, restitution, punitive damages, and attorneys' fees and costs. On July 12, 2012, this action was transferred to the multidistrict litigation proceeding pending in the United States District Court for the Western District of Kentucky, entitled *In re Skechers Toning Shoe Products Liability Litigation*, MDL No. 2308. On August 13, 2012, the United States District Court for the Western District of Kentucky granted preliminary approval of the consumer class action settlement agreement in the *Grabowski/Morga* actions (discussed above), and issued a preliminary injunction that enjoins the continued prosecution of this action. On May 13, 2013, the Court entered an order finally approving the nationwide consumer class action settlement. The settlement in the *Grabowski/Morga* class actions is expected entirely to resolve the class claims brought by the plaintiff in *Scovil*.

*Esteban Chavez v. Skechers U.S.A., Inc.* On September 18, 2012, Esteban Chavez filed a class action lawsuit against our company in the Superior Court of the State of California for the County of Los Angeles, Case No. BC492357, alleging violations of the California Labor Code, including unpaid overtime, unpaid minimum wages, non-compliant wage statements, and wages not timely paid upon termination. The complaint seeks actual, consequential and incidental losses and damages; general and special damages; civil, statutory and waiting time penalties; restitution of unpaid wages; injunctive relief; attorneys' fees and costs; pre-judgment interest on unpaid compensation; and appointment of a receiver. On September 25, 2012, the Court issued an order staying the action until an initial status conference that was held on December 19, 2012. While it is too early to predict the outcome of the litigation or a reasonable range of potential losses and whether an adverse result would have a material adverse impact on our results of operations or financial position, we believe we have meritorious defenses, vehemently deny the allegations, and intend to defend the case vigorously.

*Roneshia Sayles v. Skechers U.S.A., Inc.* On October 2, 2012, Roneshia Sayles filed a class action lawsuit against our company in the Superior Court of the State of California for the County of Los Angeles, Case No. BC473067. The complaint involves a wage and hour claim, alleging violations of the California Labor Code, including unpaid time for certain breaks and when retail employees' bags are checked upon leaving the store at the ends of their shifts. The complaint seeks actual, consequential and incidental losses and damages; general and special damages; civil, statutory and waiting time penalties; restitution of unpaid wages; injunctive relief; attorneys' fees and costs; pre-judgment interest on unpaid compensation. On September 25, 2012, the Court issued an order staying the action until an initial status conference that was held on December 19, 2012. While it is too early to predict the outcome of the litigation or a reasonable range of potential losses and whether an adverse result would have a material adverse impact on our results of operations or financial position, we believe we have meritorious defenses, vehemently deny the allegations, and intend to defend the case vigorously.

*Personal Injury Lawsuits Involving Shape-ups* As previously reported, on February 20, 2011, Skechers U.S.A., Inc., Skechers U.S.A., Inc. II and Skechers Fitness Group were named as defendants in a lawsuit that alleged, among other things, that Shape-ups are defective and unreasonably dangerous, negligently designed and/or manufactured, and do not conform to representations made by our company, and that we failed to provide adequate warnings of alleged risks associated with Shape-ups. In total, we have been named as a defendant in 460 currently pending cases that assert further varying injuries but employ similar legal theories and assert similar claims to the first case, as well as claims for breach of express and implied warranties, loss of consortium, and fraud. Although there are some variations in the relief sought, the plaintiffs generally seek compensatory and/or economic damages, exemplary and/or punitive damages, and attorneys' fees and costs. On December 19, 2011, the Judicial Panel on Multidistrict Litigation issued an order establishing a multidistrict litigation ( MDL ) proceeding in the United States District Court for the Western District of Kentucky entitled *In re Skechers Toning Shoe Products Liability Litigation*, case no. 11-md-02308-TBR, that currently encompasses 461 personal injury cases that were initiated as individual lawsuits in various federal courts and 390 additional claims submitted by plaintiff fact sheets. Skechers U.S.A., Inc., Skechers U.S.A., Inc. II and Skechers Fitness Group are also named defendants in 34 personal injury actions filed in the Superior Court of California in Los Angeles ( LASC ) that have been brought on behalf of a total of 400 individual plaintiffs. Finally, there are currently seven other personal injury actions pending in various state courts. Since 2011, the Company has resolved 60 personal injury claims in the MDL proceedings that were either filed as formal actions or submitted by plaintiff fact sheets, as well as seven actions filed in various state courts (including the *Lovston* action described above). Two cases in the MDL proceeding have been dismissed either voluntarily or on motions by Skechers, and the claims of 25 persons involved in the LASC proceedings have been dismissed in whole or in part on motions by Skechers. In addition, Skechers has reached settlements in principle with an additional 355 claimants in the MDL proceeding, and anticipates that those settlements will be finalized in the near term. The personal injury cases in the MDL and LASC proceedings are in many instances solicited and handled by the same plaintiff's law firms. It is too early to predict the outcome of any case, whether there will be future personal injury cases filed, whether adverse results in any single case or in the aggregate would have a material adverse impact on our operations or financial position, and whether insurance coverage will be adequate to cover any losses. Notwithstanding, we believe we have meritorious defenses, vehemently deny the allegations and intend to defend each of these cases vigorously.

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*Gloria Basaraba v. Robert Greenberg, et al.* On July 10, 2013, a stockholder derivative complaint was filed against Skechers, nine individual members of its Board of Directors and a former employee in the United States District Court for the Central District of California, Case No. CV13-5061. The complaint includes allegations of breach of fiduciary duties, gross mismanagement, waste of corporate assets and unjust enrichment based on the development of Skechers toning footwear products, advertising and marketing activities relating thereto, and subsequent litigation involving those issues. The complaint seeks compensatory damages, a court order directing Skechers to reform and improve their corporate governance and internal procedures, and attorneys' fees, costs and expenses. Discovery has not yet commenced. While it is too early to predict the outcome of litigation or a reasonable range of potential losses and whether an adverse result would have a material adverse impact on our results of operations or financial position, Skechers believes this lawsuit is without merit and intends to vigorously defend against the allegations.

In addition to the matters included in its reserve for loss contingencies, we occasionally become involved in litigation arising from the normal course of business, and we are unable to determine the extent of any liability that may arise from any such unanticipated future litigation. We have no reason to believe that there is a reasonable possibility or a probability that we may incur a material loss, or a material loss in excess of a recorded accrual, with respect to any other such loss contingencies. However, the outcome of litigation is inherently uncertain and assessments and decisions on defense and settlement can change significantly in a short period of time. Therefore, although we consider the likelihood of such an outcome to be remote with respect to those matters for which we have not reserved an amount for loss contingencies, if one or more of these legal matters were resolved against our company in the same reporting period for amounts in excess of our expectations, our consolidated financial statements of a particular reporting period could be materially adversely affected.

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**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA  
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULE**

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<b><u>CONSOLIDATED BALANCE SHEETS</u></b>	<b>10</b>
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**Report of Independent Registered Public Accounting Firm**

Board of Directors and Stockholders

Skechers U.S.A., Inc.

Manhattan Beach, CA

We have audited the accompanying consolidated balance sheets of Skechers U.S.A., Inc. and subsidiaries as of December 31, 2012 and 2011 and the related consolidated statements of operations, comprehensive income (loss), equity, and cash flows for the years then ended. In connection with our audits of the financial statements, we have also audited the financial statement schedule listed in the accompanying index. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements and schedule. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Skechers U.S.A., Inc. and subsidiaries at December 31, 2012 and 2011, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Also, in our opinion, the financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Skechers U.S.A., Inc. and subsidiaries' internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated July 31, 2013 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP

Los Angeles, CA

July 31, 2013

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**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders

Skechers U.S.A., Inc.:

We have audited the accompanying consolidated statements of operations, comprehensive income, equity, and cash flows of Skechers U.S.A., Inc. and subsidiaries (the Company) for the year ended December 31, 2010. In connection with our audit of the consolidated financial statements, we also have audited the related financial statement schedule of valuation and qualifying accounts. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the results of operations and cash flows of Skechers U.S.A., Inc. and subsidiaries for the year ended December 31, 2010, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ KPMG LLP

Los Angeles, California

March 1, 2011

**Table of Contents****SKECHERS U.S.A., INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

(In thousands, except par values)

	December 31, 2012	December 31, 2011
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 325,826	\$ 351,144
Trade accounts receivable, less allowances of \$16,922 in 2012 and \$20,423 in 2011	213,697	176,018
Other receivables	7,491	6,636
Total receivables	221,188	182,654
Inventories	339,012	226,407
Prepaid expenses and other current assets	27,755	88,005
Deferred tax assets	26,531	39,141
Total current assets	940,312	887,351
Property, plant and equipment, at cost, less accumulated depreciation and amortization	362,446	376,446
Goodwill and other intangible assets, less accumulated amortization	3,242	4,148
Deferred tax assets	16,387	530
Other assets, at cost	17,833	13,413
Total non-current assets	399,908	394,537
<b>TOTAL ASSETS</b>	<b>\$ 1,340,220</b>	<b>\$ 1,281,888</b>
<b>LIABILITIES AND EQUITY</b>		
Current Liabilities:		
Current installments of long-term borrowings	\$ 11,668	\$ 10,059
Short-term borrowings	2,425	50,413
Accounts payable	241,525	231,000
Accrued expenses	36,923	16,994
Total current liabilities	292,541	308,466
Long-term borrowings, excluding current installments	128,517	76,531
Deferred tax liabilities	73	4,364
Total non-current liabilities	128,590	80,895
Total liabilities	421,131	389,361
Commitments and contingencies		
Stockholders' equity:		
Preferred Stock, \$.001 par value; 10,000 authorized; none issued and outstanding	0	0
Class A Common Stock, \$.001 par value; 100,000 shares authorized; 39,021 and 37,959 shares issued and outstanding at December 31, 2012 and 2011, respectively	39	38
Class B Common Stock, \$.001 par value; 60,000 shares authorized; 11,274 and 11,297 shares issued and outstanding at December 31, 2012 and 2011, respectively	11	11
Additional paid-in capital	336,278	320,877
Accumulated other comprehensive loss	(2,400)	(894)

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Retained earnings	542,041	532,529
Skechers U.S.A., Inc. equity	875,969	852,561
Noncontrolling interests	43,120	39,966
Total equity	919,089	892,527
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 1,340,220</b>	<b>\$ 1,281,888</b>

See accompanying notes to consolidated financial statements.



**Table of Contents****SKECHERS U.S.A., INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS****(In thousands, except per share data)**

	Years Ended December 31,		
	2012	2011	2010
Net sales	\$ 1,560,321	\$ 1,606,016	\$ 2,006,868
Cost of sales	876,995	982,268	1,094,962
Gross profit	683,326	623,748	911,906
Royalty income, net	7,104	7,558	4,568
	690,430	631,306	916,474
Operating expenses:			
Selling	134,920	152,000	186,738
General and administrative	532,373	569,164	532,996
Legal settlements	818	43,935	1,172
	668,111	765,099	720,906
Earnings (loss) from operations	22,319	(133,793)	195,568
Other income (expense):			
Interest income	559	1,851	2,802
Interest expense	(13,324)	(7,853)	(3,022)
Gain (loss) on disposal of assets	(216)	9,632	44
Gain (loss) on foreign currency transactions	1,135	(884)	1,211
	(11,846)	2,746	1,035
Earnings (loss) before income taxes (benefit)	10,473	(131,047)	196,603
Income tax expense (benefit)	(39)	(63,467)	60,198
Net earnings (loss)	10,512	(67,580)	136,405
Less: Net earnings (loss) attributable to noncontrolling interests	1,000	(96)	257
Net earnings (loss) attributable to Skechers U.S.A., Inc.	\$ 9,512	\$ (67,484)	\$ 136,148
Net earnings (loss) per share attributable to Skechers U.S.A., Inc.:			
Basic	\$ 0.19	\$ (1.39)	\$ 2.87
Diluted	\$ 0.19	\$ (1.39)	\$ 2.78
Weighted average shares used in calculating earnings (loss) per share attributable to Skechers U.S.A., Inc.:			
Basic	49,495	48,491	47,433

Diluted

49,942

48,491

49,050

See accompanying notes to consolidated financial statements.

**Table of Contents****SKECHERS U.S.A., INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)****(In thousands)**

	<b>Years Ended December 31,</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
Net earnings (loss)	\$ 10,512	\$ (67,580)	\$ 136,405
Other comprehensive income (loss), net of tax:			
Loss on foreign currency translation adjustment, net of tax	(1,251)	(4,843)	(4,657)
Comprehensive income (loss)	9,261	(72,423)	131,748
Less: Comprehensive income attributable to noncontrolling interests.	1,255	220	683
Comprehensive income (loss) attributable to Skechers U.S.A., Inc.	\$ 8,006	\$ (72,643)	\$ 131,065

See accompanying notes to consolidated financial statements.

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## SKECHERS U.S.A., INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF EQUITY

(In thousands)

	SHARES		AMOUNT		ADDITIONAL PAID-IN CAPITAL	OTHER COMPREHENSIVE INCOME (LOSS)	RETAINED EARNINGS	SKECHERS U.S.A., INC.	NON CONTROLLING INTERESTS	TOTAL STOCKHOLDERS EQUITY
	CLASS A COMMON STOCK	CLASS B COMMON STOCK	CLASS A COMMON STOCK	CLASS B COMMON STOCK						
Balance at December 31, 2009	34,229	12,360	\$ 34	\$ 13	\$ 272,662	\$ 9,348	\$ 463,865	\$ 745,922	\$ 3,448	\$ 749,370
Net earnings							136,148	136,148	257	136,405
Foreign currency translation adjustment						(5,083)		(5,083)	426	(4,657)
Capital contribution									33,500	33,500
Stock compensation expense					13,739			13,739		13,739
Proceeds from issuance of common stock under the employee stock purchase plan	103				2,143			2,143		2,143
Proceeds from issuance of common stock under the employee stock option plan	1,513		2		11,895			11,897		11,897
Tax benefit of stock options exercised					9,042			9,042		9,042
Shares redeemed for employee tax withholdings					(5,604)			(5,604)		(5,604)
Conversion of Class B Common Stock into Class A Common Stock	1,049	(1,049)	1	(2)				(1)		(1)
Balance at December 31, 2010	36,894	11,311	\$ 37	\$ 11	\$ 303,877	\$ 4,265	\$ 600,013	\$ 908,203	\$ 37,631	\$ 945,834
Net loss							(67,484)	(67,484)	(96)	(67,580)
Foreign currency translation adjustment						(5,159)		(5,159)	316	(4,843)
Capital contribution									2,115	2,115
Stock compensation expense					14,320			14,320		14,320
Proceeds from issuance of common stock under the employee stock purchase plan	178				2,023			2,023		2,023
Proceeds from issuance of common stock under the employee stock option plan	873		1		1,297			1,298		1,298
Tax benefit of stock options exercised					(640)			(640)		(640)
Conversion of Class B Common Stock into Class A Common Stock	14	(14)								
Balance at December 31, 2011	37,959	11,297	\$ 38	\$ 11	\$ 320,877	\$ (894)	\$ 532,529	\$ 852,561	\$ 39,966	\$ 892,527
Net earnings							9,512	9,512	1,000	10,512
Foreign currency translation adjustment						(1,506)		(1,506)	255	(1,251)
Contribution from noncontrolling interest of consolidated entity									3,501	3,501
Distribution to noncontrolling interest of consolidated entity									(1,602)	(1,602)
Stock compensation expense					11,527			11,527		11,527
Proceeds from issuance of common stock under the employee stock purchase plan	186				2,374			2,374		2,374

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Proceeds from issuance of common stock under the employee stock option plan	853	1			1,050				1,051		1,051
Tax benefit of stock options exercised					450				450		450
Conversion of Class B Common Stock into Class A Common Stock	23	(23)									
Balance at December 31, 2012	39,021	11,274	\$ 39	\$ 11	\$ 336,278	\$ (2,400)	\$ 542,041	\$ 875,969	\$ 43,120	\$	919,089

See accompanying notes to consolidated financial statements

**Table of Contents****SKECHERS U.S.A., INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****(In thousands)**

	Years Ended December 31,		
	2012	2011	2010
Cash flows from operating activities:			
Net earnings (loss) attributable to Skechers, U.S.A., Inc.	\$ 9,512	\$ (67,484)	\$ 136,148
Adjustments to reconcile net earnings (loss) to net cash (used in) provided by operating activities:			
provided by (used in) operating activities:			
Noncontrolling interests in subsidiaries	1,000	(96)	257
Depreciation of property, plant and equipment	41,542	33,652	24,707
Amortization of deferred financing costs	1,195	1,128	1,482
Amortization of intangible assets	906	1,580	1,683
Provision for bad debts and returns	1,112	5,882	6,212
Tax benefits from share-based compensation	(78)	(640)	0
Non-cash share-based compensation	11,527	14,320	13,739
Deferred income taxes	(7,538)	(7,863)	(5,170)
Inventory write-down	0	9,971	0
Loss (gain) on disposal of property, plant and equipment	216	(9,632)	36
Impairment of property, plant and equipment	0	1,481	0
Impairment of intangible assets	0	1,649	0
(Increase) decrease in assets:			
Receivables	(36,989)	86,114	(50,040)
Inventories	(111,813)	160,241	(172,417)
Prepaid expenses and other current assets	60,266	(38,247)	(21,402)
Other assets	(4,955)	3,291	(7,571)
Increase (decrease) in liabilities:			
Accounts payable	9,958	(18,074)	32,829
Accrued expenses	20,692	(12,354)	(7,872)
Net cash (used in) provided by operating activities	(3,447)	164,919	(47,379)
Cash flows from investing activities:			
Capital expenditures	(52,452)	(122,238)	(82,269)
Maturities of investments	0	0	30,000
Proceeds from the sale of property, plant and equipment	0	17,100	0
Intangible additions	0	(10)	(41)
Net cash (used in) investing activities	(52,452)	(105,148)	(52,310)
Cash flows from financing activities:			
Net proceeds from the issuances of stock through employee stock purchase plan and the exercise of stock options	3,425	3,321	14,040
Shares redeemed for employee tax withholdings	0	0	(5,604)
Contributions from noncontrolling interest of consolidated entity	3,501	2,115	3,500
Distribution to noncontrolling interest of consolidated entity	(1,602)	0	0
Excess tax benefits from share-based compensation	528	0	9,042
(Decrease) increase in short-term borrowings	(47,998)	31,958	16,271
Proceeds from long-term debt	82,143	37,326	39,293
Payments on long-term debt	(10,243)	(14,287)	(9,121)

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Net cash provided by financing activities	29,754	60,433	67,421
Net (decrease) increase in cash and cash equivalents	(26,145)	120,204	(32,268)
Effect of exchange rates on cash and cash equivalents	827	(2,618)	151
Cash and cash equivalents at beginning of year	351,144	233,558	265,675
Cash and cash equivalents at end of year	\$ 325,826	\$ 351,144	\$ 233,558

Supplemental disclosures of cash flow information:

Cash paid (received) during the year for:

Interest	\$ 11,812	\$ 7,692	\$ 3,438
Income taxes paid (recovered)	(48,706)	15,772	87,063
Non-cash transactions:			
Land contribution from noncontrolling interest	0	0	30,000
Note payable contribution from noncontrolling interest	0	0	17,358

See accompanying notes to consolidated financial statements.

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**SKECHERS U.S.A., INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2012, 2011 and 2010**

**(1) THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**(a) The Company and Basis of Presentation**

Skechers U.S.A., Inc. and subsidiaries (the Company) designs, develops, markets and distributes footwear. The Company also operates 354 retail stores and an e-commerce business as of December 31, 2012.

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States and include the accounts of the Company and its subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. During the year ended December 31, 2012, the Company recorded an adjustment to increase rent expense by \$1.9 million, or \$1.1 million net of tax relating to percentage and deferred rent for the periods ending December 31, 2008 through December 31, 2011. These adjustments were immaterial both in the current year and in prior years.

**(b) Use of Estimates**

Management has made a number of estimates and assumptions relating to the reporting of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with accounting principles generally accepted in the United States. Significant areas requiring the use of management estimates relate primarily to revenue recognition, allowance for bad debts, returns, sales allowances and customer chargebacks, inventory write-downs, valuation of long-lived assets, litigation reserves and valuation of deferred income taxes. Actual results could differ from those estimates.

**(c) Noncontrolling interests**

The Company has equity interests in several joint ventures that were established either to distribute the Company's products throughout Asia or to construct the Company's domestic distribution facility. These joint ventures are variable interest entities (VIE) under Accounting Standards Codification (ASC) 810-10-15-14. The Company's determination of the primary beneficiary of a VIE considers all relationships between the Company and the VIE, including management agreements, governance documents and other contractual arrangements. The Company has determined for its VIEs the Company is the primary beneficiary because it has both of the following characteristics: (a) the power to direct the activities of a VIE that most significantly impact the entity's economic performance, and (b) the obligation to absorb losses of the entity that could potentially be significant to the variable interest entity or the right to receive benefits from the entity that could potentially be significant to the variable interest entity. Accordingly, the Company includes the assets and liabilities and results of operations of these entities in its consolidated financial statements, even though the Company may not hold a majority equity interest. There have been no changes during 2012 in the accounting treatment or characterization of any previously identified VIE. The Company continues to reassess these relationships quarterly. The assets of these joint ventures are restricted in that they are not available for general business use outside the context of such joint ventures. The holders of the liabilities of each joint venture have no recourse to the Company. The Company does not have a variable interest in any unconsolidated VIEs.



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The following VIEs are consolidated into the Company's consolidated financial statements and the carrying amounts and classification of assets and liabilities were as follows (in thousands):

<b>HF Logistics-SKX, LLC</b>	<b>December 31, 2012</b>	<b>December 31, 2011</b>
Current assets	\$ 5,239	\$ 11,400
Noncurrent assets	133,235	132,925
<b>Total assets</b>		